

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2011

DOCKET No. ACR2011

UNITED STATES POSTAL SERVICE NOTICE OF FILING OF REVISION TO  
RESPONSE TO QUESTION 1 OF CHAIRMAN'S INFORMATION REQUEST NO. 1 –  
ERRATA  
(February 14, 2012)

The United States Postal Service hereby files a revised response to Question 1 of Chairman's Information Request No. 1. In light of the follow-up question posed in question 1 of Chairman's Information Request No. 3, the Postal Service decided to revise its original response, which was filed on February 8, 2012. A revised version of the response follows this Notice.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing & Product Support

David H. Rubin

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1135  
(202) 268-2986; Fax -6187  
February 14, 2012

Revised February 14, 2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

**Question 1**

Please refer to the discussion of First-Class Mail worksharing discounts in the FY 2011 Annual Compliance Report at 51-54. There are nine workshare discounts that exceed avoided costs. Note that this does not include the evaluation of the discount for Automation Mixed AADC letters, which has been suspended pending the outcome of Docket No. RM2010-13. For each First-Class Mail discount that exceeds avoided costs, please explain whether the Postal Service believes that some or all of these discounts are covered by exceptions in 39 U.S.C. § 3622(e), and if so, for each discount for which a § 3622(e) exception is claimed, identify the exception and explain how it applies to the discount.

**RESPONSE:**

The discussion on pages 51-54 of the Annual Compliance Report includes the following First-Class Mail discounts that exceed avoided costs:

1. Automation AADC Letters – Passthrough 104.8 percent
2. 5-Digit Automation Letters – Passthrough 104.2 percent
3. Mixed AADC Automation Cards – Passthrough 131.6 percent
4. AADC Automation Cards – Passthrough 120.0 percent
5. 5-Digit Automation Cards – Passthrough 116.7 percent
6. ADC Automation Flats – Passthrough 226.4 percent
7. 3-Digit Automation Flats – Passthrough 134.9 percent
8. QBRM Letters – Passthrough 287.5 percent
9. QBRM Cards – Passthrough 287.5 percent

The AADC Automation Letters cost avoidance (compared to Mixed AADC) is 2.1 cents for FY2011, compared to 2.2 cents in FY2010. The Postal Service will give consideration to this cost avoidance as the network rationalization initiative presented in Docket No. N2012-1 evolves. This passthrough is justified by the exception granted in 39 U.S.C. § 3622(e)(2)(D). Please see the Postal Service's response to Question 2 of Chairman's Information Request No. 2 in Docket No. R2012-3.

The passthrough for 5-Digit Automation Letters is 104.2 percent due to the

Revised February 14, 2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

reduction in the cost avoidance from 2.6 cents in FY2010 to 2.4 cents in FY2011. This particular passthrough will be 100 percent with the implementation of the Docket No. R2012-3 prices on January 22, 2012. This passthrough is justified by the exception granted in 39 U.S.C. § 3622(e)(2)(D).

The three discounts for First-Class Mail Automation Cards exceed their respective cost avoidances because in all cases the cost avoidances have shrunk. All of these passthroughs were below 100 percent in FY2010. The Postal Service will consider these new cost avoidances in future price increases. These three passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(D).

The ADC Automation Flats passthrough has declined significantly (from 277.3 percent to 226.4 percent) mainly because of an increase in the cost avoidance. This passthrough is justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B). Since Docket No. R2009-2, this particular passthrough has been over 100 percent. In Docket No. RM2008-2, Proposal 8, the cost methodology for estimating the costs of Automation Flats was changed. The resulting cost avoidances led to greater than 100 percent passthroughs. The Postal Service is gradually changing this discount to bring it closer to the estimated cost avoidance. A large reduction in the discount for ADC Automation Flats to match the cost avoidance would not only impact the price of ADC Automation Flats, but also the prices for 3-Digit and 5-Digit Automation Flats. A gradual approach to match the two makes more business sense.

The 3-Digit Automation Flats passthrough has risen (from 108.9 percent to 134.9 percent) mainly because of a reduction in the cost avoidance during FY2011. The

Revised February 14, 2012

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

Postal Service will continue to take into consideration this passthrough in future price changes. This particular discount has gone down from 5.8 cents in the current ACR to 5.6 cents in Docket No. R2012-3. These passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(D).

The QBRM Letters and Cards cost avoidance has experienced large reductions over the last two years from 2.4 cents (FY2009) to 1.3 cents (FY2010) and then to the current 0.8 cents. The Postal Service has already reduced this discount by one-tenth of a cent to 2.2 cents for the rates that went into effect on January 22, 2012, and will continue to take into consideration the lower cost avoidance in future price changes. Reducing these discounts to match the currently estimated cost avoidances would lead to much larger increases for QBRM Letters and Cards. Abrupt and large increases in the prices of QBRM Letters and Cards are not the desired business strategy. Postal Service pricing in Docket No. R2012-3 has started a more gradual process through which these discounts would be brought closer to the calculated cost avoidance. These QBRM Letters and Cards passthroughs are justified by the exception granted in 39 U.S.C. § 3622(e)(2)(B).

In summary, the process of managing passthroughs is an iterative process. As cost avoidances may change from one year to the next, the Postal Service addresses such passthrough issues in its subsequent price change, while striking the right balance with respect to operational efficiency and mitigating potential rate shock to customers.